1971

Interest on receivables and payables

Rudolph C. Greipel

INTEREST ON RECEIVABLES AND PAYABLES

by Rudolph C. Greipel
Principal, Executive Office

Adapted from a presentation by Armin C. Tufer, Partner, Executive Office, before the American Management Association, New York City—April 1971

On January 22, 1971 the Accounting Principles Board issued, for comment from interested parties, an exposure draft of a proposed Opinion relating to interest on receivables and payables. The proposed Opinion[1] applies to all receivables and payables representing contractual rights to receive or obligations to pay money on fixed or determinable dates in the future, whether or not there are any stated provisions for interest. For convenience, such receivables and payables are collectively referred to herein as "notes." Examples are secured and unsecured notes, debentures, bonds, mortgages, equipment obligations and some accounts receivable and payable. The proposed Opinion is not intended to apply to receivables and payables due within normal trade terms not exceeding one year, nor does it change the accounting for convertible debt securities described in APB Opinion No. 14.[2]

---

[1] *The original presentation, which dealt with the exposure draft of the proposed APB Opinion on Interest on Receivables and Payables, has been revised herein to include changes made in the Opinion as finally adopted in August 1971 by the Accounting Principles Board. The Opinion is effective for transactions entered into on or after October 1, 1971.*

[2] *The Opinion is also not intended to apply to:*
1. "amounts which do not require repayment in the future, but rather will be applied to the purchase price of the property, goods, or service involved (e.g., deposits or progress payments on construction contracts, . . .);
2. "amounts intended to provide security for one party to an agreement (e.g., security deposits, retainages on contracts);
3. "the customary cash lending activities and demand or savings deposit activities of financial institutions whose primary business is lending money;
4. "transactions where interest rates are affected by the tax attributes or legal restrictions prescribed by a governmental agency (e.g. industrial revenue bonds, . . .);
5. "transactions between parent and subsidiary companies and between subsidiaries of a common parent" (consideration deferred pending study of the subject of reporting on components of a business enterprise, which is in process).
In addition, the Opinion is not intended to apply to, nor is a position taken with respect to, "the application of the present value measurement technique to estimates of contractual or other obligations assumed in connection with sales of property, goods, or service, for example, a warranty for product performance."

THE PROPOSED OPINION – AN OVERVIEW

The Opinion proposes that a note received or issued for cash is presumed to earn the stated rate of interest and thus should be recorded at its face amount. However, in some cases the parties may also exchange unstated or stated rights and privileges, which should be given accounting recognition by establishing a note discount or premium account. For instance, a corporation may offer a five year non-interest-bearing loan to one of its major suppliers, in partial consideration for a purchase contract for products at lower than prevailing market prices. In such a situation, the difference between the amount of cash loaned to the supplier and the present value of the note should be recognized as an addition to the cost of products purchased during the contract term. The note discount should be amortized as interest income over the five-year life of the loan.

On the other hand, when notes are received or issued in a non-cash transaction, the proposed Opinion would require that a note bearing no stated interest be recorded at the approximate present value of the note rather than at its face value, as is sometimes done today. In addition to non-interest-bearing notes, notes having stated interest rates at issuance significantly lower or higher than the prevailing market rate for similar obligations would also be required to be recorded at their present value.

Furthermore, the proposed Opinion sets forth methods of determining the approximate present value of notes. When the present value cannot be determined by reference to the cash exchange price of the assets or services acquired or to a quoted market value for the notes, the Opinion suggests the factors to be considered in estimating, or imputing, an appropriate discount rate with which to compute it.

The proposed Opinion also provides for recognizing tax timing differences resulting from recording notes on different bases for books and for tax purposes and for reporting discount or premium as a valuation account to be applied against the note.

CRITICISM OF THE PROPOSED OPINION

Although it is still too early to accurately judge the reaction, early comments on the exposure draft suggest that it is causing some controversy among accountants and other interested parties. Much of the adverse comment on the proposed Opinion appears to result from misunderstanding of either the intent or the application of the present value concept set forth

therein.

For example, some of the criticisms expressed were (1) that all items on the financial statements are not supposed to represent present value, (2) that this is an attempt to equalize interest rates between companies, (3) that the amounts involved are not material and only require disclosure, (4) that the proposed Opinion does not provide a *minimum interest rate* above which interest need not be imputed or a *range* within which interest need not be imputed, and (5) that an inordinate amount of additional accounting effort will be required to comply with the proposed procedures.

REQUIREMENT FOR IMPUTED INTEREST

Keeping such criticism by responsible businessmen in mind, let us consider an example of what is required by the proposed Opinion. Assume A Company sold a parcel of real estate for $100,000, payable in five equal annual installments. Under historic accounting practice, the note could be recorded at its face value of $100,000, and no interest income recognized. However, the proposed Opinion takes the position that a portion of the $100,000 represents interest, which is receivable for the privilege of delaying payment over five years rather than making payment immediately. To state the case another way, A Company would probably have sold the land for less than $100,000, if full payment was to be received at the time of sale. Accordingly, the proposed Opinion would require recording the note at its present value of only $84,247,[3] assuming an imputed interest rate of 6% in this case. The difference between that amount and $100,000 would be recorded as note discount and accrued as interest income over the five years. The accounting for the buyer would be similar—his note payable would be recorded at its present value and the difference between that amount and the

---

[3] *The present value of this note may be computed as follows:*

Year	*Payment Due*	*Factor For Present Worth of 1 Due At End of Year*	*Present Value at 6%*
1	$ 20,000	.943396	$18,868
2	20,000	.889996	17,800
3	20,000	.839619	16,792
4	20,000	.792094	15,842
5	20,000	.747258	14,945
Totals	$ 100,000		$84,247

This could also be computed by multiplying the periodic payment due ($20,000) times the factor for the present worth of 1 per period for 5 years at 6% (4.212364), which provides the same answer ($84,247).

face amount of $100,000 would be recorded as note discount and accrued as interest expense over the five years.

PAST PRACTICE

The practice of recording notes that bear no interest or an unreasonable stated interest rate at their present value has been followed by a number of companies during the last decade. For example, in 1966, Faberge, Incorporated made an acquisition under a non-interest bearing purchase contract, calling for a series of payments through 1978. The required payments of $3,400,000 were recorded at their present value of $2,633,000, and interest is being accrued thereon at 5% and charged against income each year.

More recently, Loew's Theatres, Inc., in connection with its acquisition of Lorillard Corporation in 1968, issued more than $401,000,000 of 6-7/8% subordinated debentures due in 1993, plus warrants. In recognition of the difference between the face value of the 6-7/8% debentures and their fair value at the date of the transaction, Loew's recorded issue discount of more than $40,000,000.

Although the practice of recording notes at their present value when issued appears to be increasing in recent years, the practice has not been universally followed nor uniformly applied.

In connection with the acquisition of two subsidiaries in 1969, for example, one company issued a $400,000 non-interest-bearing note which was recorded at face amount. In the same year, another company incurred a non-interest-bearing purchase obligation in connection with an acquisition. Although the obligation was discounted at a rate of 6%, the rate paid by the company on other debt was considerably higher.

Thus, rather than imposing a new concept on accounting for notes, the Board is simply requiring adherence to a concept that already has considerable support in practice and is providing guidelines for its application.

RECOGNITION IN ACCOUNTING LITERATURE

As a matter of fact, accounting for notes at their present value has long been mentioned in accounting literature. For example, in an accounting text written in 1938,[4] W. A. Paton recognized the existence of imputed interest

---

[4] *W. A. Paton,* **Essentials of Accounting,** *(New York: The Macmillan Company, 1938) pages 454-56.*

both on receivables and payables bearing no interest and on those bearing a stated interest rate greater or less than the market rate. This concept was later reflected in a position paper of the American Accounting Association[5] and in other accounting theory texts. These later authorities, however, generally restricted their discussions to the valuation of non-interest-bearing receivables.

The concept has also been given partial recognition in previous opinions of the Accounting Principles Board. For instance, in dealing with capitalization of leases, the Board stated that "the property and the obligation should be stated in the balance sheet at an appropriate discounted amount of future payments under the lease agreement."[6] In 1970, the Board dealt more fully with the concept in the situation where one company acquires another in a transaction to be accounted for as a purchase. In such situations, receivables acquired and payables assumed are required to be stated at the present values of the amounts to be received or paid, determined at appropriate current interest rates.[7]

IMPACT ON FINANCIAL STATEMENTS

The above concept may be fine in theory, but does it really make a significant difference in the financial statements? That question cannot be answered unequivocally, because the significance of the discount required to reduce a note to its present value depends on several factors – principally the size and term of the note and the difference between the stated rate and the market rate of interest.

However, look at the potential distortions that can result from not recognizing notes at their present values. Exhibit 1 shows a comparison of the results to seller and buyer of simply changing the interest rate in a hypothetical transaction involving the acquisition of a subsidiary for $1,000,000 with the purchase price represented entirely by a note. In Case 1, the note bears interest at 4%; in Case 2, the note bears no interest; and in

[5] Accounting Principles Underlying Corporate Financial Statements *(American Accounting Association, June 1941) states that "cost incurred is measured by cash outlay or by the fair market value of considerations other than cash." It further states that "where the immediate consideration received from the customer is in a form other than cash the amount of revenue realized and recognizable is restricted to the cash value of the consideration."*

[6] *Accounting Principles Board Opinion No. 5, "Reporting of Leases in Financial Statements of Lessee" (New York: American Institute of Certified Public Accountants, 1964), paragraph 15.*

[7] *Accounting Principles Board Opinion No. 16, "Business Combinations" (New York: American Institute of Certified Public Accountants, 1970), paragraph 88.*

EXHIBIT 1

EXAMPLE OF EFFECT OF DIFFERENT INTEREST RATE AND PRINCIPAL AMOUNT ASSUMPTIONS FOR A NOTE USED IN AN ACQUISITION

On the last day of their fiscal years, S Company sells a subsidiary, having a net book value of $700,000, to B Company for $1,000,000. For simplicity, assume the purchase price is represented entirely by a note, payable $100,000 a year for ten years. In addition, assume the following facts just before the sale:

S Company		B Company	
Total assets	$5,000,000	Total assets	$4,000,000
Stockholders' equity	1,250,000	Stockholders' equity	1,500,000
Net income before extraordinary items	150,000	Net income	130,000

The effect on the financial statements of S and B, under the assumptions that the note (1) bears interest at 4%, (2) bears no interest, or (3) bears interest at 10%, would be as follows:

**Tax rate of 48% was used for portion of gain which would be considered unstated interest for tax purposes.*

***Net of income tax effect for portion considered unstated interest for income tax purposes.*

****For simplicity, assumption is made that bargain cost would result in a reduction in tax depreciation as well as book depreciation.*

	Case #1 Interest at 4%	*Case #2 No Interest*	*Case #3 Interest at 10%*
S Company:			
In the year of sale:			
Note receivable	$ 811,000	$1,000,000	$ 614,000
Total assets	$5,111,000	$5,300,000	$4,914,000

Extraordinary item:			
Gain (loss) on sale of subsidiary	$ 111,000	$ 300,000	$ (86,000)
Less Federal income taxes (at 30%)	(33,300)	(131,000)*	25,800
Net gain (loss)	$ 77,700	$ 169,000	$ (60,200)
Net income	$ 227,700	$ 319,000	$ 89,800
In the following year:			
Interest income	$ 32,400		$ 61,400
Less Federal income taxes (at 48%)	(15,600)		(29,500)
Effect on net income	$ 16,800		$ 31,900
Total proceeds realized after Federal income taxes over the term of the note	$ 876,000	$ 869,000	$ 840,500
B Company:			
In the year of sale:			
Investment in subsidiary's net assets (at fair value)	$ 700,000	$ 700,000	$ 700,000
Excess cost over net assets acquired – assigned to goodwill and amortized over 40 years	$ 111,000	$ 300,000	
Bargain cost (excess of net assets over cost) – offset against property having a 20-year life			$ (86,000)
Note payable	$ (811,000)	$(1,000,000)	$ (614,000)
In the following year:			
Annual amortization of goodwill or bargain cost – net increase (decrease) to expense	$ 2,800	$ 4,800**	$ (2,200)***
Interest expense – net of tax benefit (at 48%)	16,800		31,900
Total increase in expense	$ 19,600	$ 4,800	$ 29,700

Case 3, the note bears interest at 10%.

Using these three different assumptions as to interest rate and face amount with identical cash payments, materially different results are obtained. Using a 4% note, the after-tax gain on sale is $77,700. Using a non-interest-bearing note, the gain is $169,000. And using a 10% note results in an after-tax *loss* of $60,200. This is a spread of $229,200 on a transaction that only involves $1,000,000 to start with! In the year following the transaction, the effect would also be significant. Interest income, after taxes, could vary from zero, assuming a non-interest-bearing note, to $31,900, assuming a 10% note.

Thus, the results vary widely for seller when the interest rate and associated face amounts are varied. As may also be seen from Exhibit 1, the results may vary just as widely for buyer in the same transaction.

CONFLICTING GOALS

There is a conflict between the different goals of buyer and seller which may, in the process of negotiation and compromise, bring about unrealistic or uneconomic results where notes are not required to be recorded at their present value. Assuming that the same amount of cash will be paid, as the stated interest rate is increased the face amount of the note must be correspondingly decreased.

If recording notes at their present value is not required, seller would often prefer a non-interest-bearing note, since the larger face amount would result in a larger immediate sales price and profit. On the other hand if a capital gain is involved, he might prefer a 4% note, since it would minimize the portion of the consideration that must be considered ordinary interest income under current income tax regulations and maximize the after-tax cash proceeds.

Buyer, however, would often prefer to use a non-interest-bearing note to minimize charges to income in the near term. Buyer's recovery of the consideration paid through income tax savings, however, would be maximized by having the note bear the highest interest rate that could be justified.

The process of negotiation through which seller and buyer finally decide upon the stated interest rate and the face amount of the note may result in the best compromise of their divergent objectives, but it is not necessarily a sound basis for determining the breakdown between price and interest for financial accounting purposes. The resulting rate will depend on the relative strength of the financial reporting and tax savings goals of seller and buyer and their relative negotiating positions.

A DILEMMA

Thus, we have a dilemma. Can it be acceptable to have a situation where seller could report anywhere from an after-tax gain of $169,000 to an after-tax loss of $60,200 on the same transaction, and where interest income the following year could vary from zero to $31,900? Or where buyer could record anywhere from $300,000 of goodwill to $86,000 of "bargain cost" and charges to income in the next year could vary from $4,800 to $29,700? Surely, there must be a better answer.

SOLUTION TO THE DILEMMA

The solution to this dilemma is to state notes at their present value when issued or received, thus placing similar transactions on the same footing and promoting comparability. For instance, in the example just presented, assume that the current interest rate applicable to that transaction is 10%. If the note bears a stated interest rate of 4% and a face amount of $811,000, it would be recorded at its face amount less the discount of $197,000, or a net amount of $614,000. The discount would be amortized to interest income over the life of the note so that, at maturity, the note would be stated at the face amount of the remaining payment. If the note is non-interest-bearing and has a face amount of $1,000,000, it would be recorded at its face amount less a discount of $386,000, or a net amount of $614,000. Again, the discount would be amortized to income over the life of the note.

DETERMINING PRESENT VALUE OF A NOTE

How do you determine the present value of a note? The simplest way is to establish the current cash exchange price of the assets or services for which the note is given or received. This may be easily determinable if such assets or services are commonly sold for cash. The difference between the cash exchange price and the exchange price including the note is considered to be a payment for the use of money, or interest. For instance, the cash exchange price of a machine may be $30,000. The dealer, however, may be willing to sell it for $3,000 down and the remainder in a non-interest-bearing note, payable in equal quarterly installments of $2,700 over three years – a total amount of $35,400. The difference between the cash price of $30,000 and the time price of $35,400, represents the imputed interest of approximately 10% per year in this case.

In many cases, a current cash exchange price may not be readily available. In such instances, if the notes are traded in the open market, the current market value and market rate of interest may be used to provide evidence of the present value.

If the present value of the notes cannot be determined either from the cash exchange price of the assets or services exchanged or from the current market value of the notes, the determination of present value becomes more difficult and requires greater skill and judgment. To estimate the present value of a note where no ready market exists, an interest rate must be imputed and all future payments of both principal and stated interest required by the note must be discounted at that rate.

PRIMARY FACTORS TO BE CONSIDERED

The choice of an imputed interest rate should be based upon such factors as the *issuer's* credit standing, restrictive covenants, and the collateral, payment and other terms pertaining to the note. If appropriate, the tax consequences to seller and buyer should also be considered. In view of the judgement required in determining an imputed interest rate, the selected rate will be simply an approximation of the rate which would have resulted if an independent borrower and an independent lender had negotiated a similar transaction, with the option of either paying the price in cash or giving a note. This is the goal of imputing interest.

The imputed interest rate, however, normally should not be less than the current rate at which buyer could obtain similar financing from other sources. To illustrate this, suppose that a company recently financed the purchase of machinery with its bank at 2% above the prime rate. If the company now acquires additional machinery financed by a non-interest-bearing note carried by the manufacturer, a minimum imputed interest rate could be estimated for such a note by adding 2% to the current prime rate.

ADDITIONAL FACTORS

The following additional factors might also have an influence on the choice of an appropriate rate:

Approximate prevailing market rates for the source of credit which would provide a market for sale or assignment of the note;

The prime or higher rate for notes that are discounted with banks;

Published market rates for similar quality bonds;

Current rates for traded debentures with substantially identical terms and risks; and

Current first or second mortgage loan rates charged by investors on similar property.

PRACTICAL CONSIDERATIONS

Let's think about some practical considerations of accounting for imputed interest. Obviously, the precise application of the requirements of the proposed Opinion to all notes may require considerably more accounting effort than many companies are now expending. However, as pointed out by the Notes thereto, APB Opinions need not be applied to immaterial items. Therefore, the materiality of the notes should be kept in mind in approaching the problem of whether to impute interest on a note and in determining the degree of refinement necessary in selecting an appropriate imputed interest rate.

The materiality of imputed interest will be affected by three factors – the relative size of the note to the total assets and income of the company, the term and payment provisions of the note, and the difference between the stated interest rate and the approximate market rate of interest. Attention to these factors may provide decision-making points at which the note may be eliminated from further consideration for imputing interest or the degree of refinement to be obtained in selecting an imputed interest rate may be limited.

For example, interest need not be imputed on a note which is immaterial in relation to the assets, equity, or income of a company (as appropriate), since the effect of any imputed interest thereon would also be immaterial. Some companies may have large numbers of individually immaterial notes, however, that are material in the aggregate – e.g., installment notes arising from lot sales by land development companies. In such cases, the need to impute interest should be considered based on the total of such notes.

If the amount of the note is material, the term of the note and its payment provisions should be considered next. In this respect, let us consider some additional concepts that may be helpful (see Exhibit 2).

As the term of the note increases, the amount of discount required to arrive at its present value for any given imputed interest rate also increases. For example, for an imputed interest rate of 6%, the discount required to state a non-interest-bearing note having a 2-year term at its present value is

EXHIBIT 2

ILLUSTRATIVE EXAMPLES OF THE PRESENT VALUES OF A SUM PAYABLE AT MATURITY AND OF A SUM DUE IN EQUAL PERIODIC INSTALLMENTS AT VARIOUS INTEREST RATES

Present Value of $1,000, Payable at End of Period
Interest Rate (Compounded Each Period)

Periods	*1%*	*2%*	*4%*	*5%*	*6%*	*7%*	*8%*	*10%*	*12%*
2	$980	$961	$925	$907	$890	$873	$857	$826	$797
3	971	942	889	864	840	816	794	751	712
4	961	924	855	823	792	763	735	683	636
5	951	906	822	784	747	713	681	621	567
10	905	820	676	614	558	508	463	386	322
15	861	743	555	481	417	362	315	239	183
20	820	673	456	377	312	258	215	149	104
25	780	610	375	295	233	184	146	92	59

Present Value of $1,000, Payable in Equal Periodic Installments
Interest Rate (Compounded Each Period)

Periods	*1%*	*2%*	*4%*	*5%*	*6%*	*7%*	*8%*	*10%*	*12%*
2	$985	$971	$943	$930	$917	$904	$892	$868	$845
3	980	961	925	908	891	875	859	829	800
4	975	952	907	886	866	847	828	792	759
5	971	943	890	866	842	820	799	758	721
10	947	898	811	772	736	702	671	614	565
15	925	857	741	692	648	607	571	507	454
20	902	818	680	623	573	530	491	426	373
25	881	781	625	564	511	466	427	363	314

11%; for a 5-year term, it is 25%; for a 10-year term, it is 44%; and for a 20-year term, it is 69%. Thus, the longer the term of the note, the more careful must be the consideration given to imputed interest.

Generally, a variation of 1% in the imputed interest rate has a greater effect on the discount as the term of the note increases. While the difference in discount between imputed rates of 5% and 6% is only 2% of the face amount for a term of 2 years, it is about 7% of the face amount for a term of 20 years. Thus, a high degree of refinement in the imputed interest rate is of greater importance for long-term notes than for short-term notes.

If the note is payable in equal periodic installments to maturity, this decreases the discount necessary to reduce the principal amount to present value. For instance, whereas the discount at 6% on a sum payable in ten years is 44%, the discount at 6% of a sum due in equal annual installments over ten years is only 26%.

To summarize these concepts, first, the present value at any given imputed interest rate is significantly less for a face amount due at maturity than for the same face amount due in equal periodic installments. Secondly, the significance of imputed interest increases as the term of the note increases. Thirdly, the effect of a small error or variation in the imputed interest rate also generally increases as the term of the note increases.

FINANCIAL STATEMENT PRESENTATION

The proposed Opinion requires that discount or premium be reported as a valuation account deducted from or added to the related notes. This is similar to the treatment accorded the allowance for doubtful accounts and allowance for depreciation. Although generally not the practice today with respect to discount on bonds and debentures, it has long been supported as more appropriate by theoreticians. The American Accounting Association in 1936 suggested such treatment in its "Tentative Statement of Accounting Principles Affecting Corporate Reports," as did some authors, such as W. A. Paton, and others.

Discount or premium is not an asset or liability that is separable or meaningful apart from the note that gives rise to it. Therefore, it should be deducted from or added to the face amount of the note. Stating the note at the net amount, rather than at its face amount, more closely approximates its current present value. The effective interest rate, as well as the face amount and stated interest rate, should be disclosed. Issue costs in connection with a note, however, should be reported as deferred charges and amortized, as is

presently the practice.

Let us compare the proposed presentation of discount and premium with present reporting practices. Currently, receivables which have been discounted to present value are generally presented as a net figure. For example, Denny's Restaurants, Inc. states its equipment lease contracts receivables, "less unearned income."[8] Presidential Realty Corporation simply discloses in a footnote that its notes receivable are stated at discounted amounts. The Opinion does not change this treatment, although disclosure in the future should be more complete with respect to the interest rates used and the amount of discount on premium.

On the other hand, present practice with respect to liabilities is mixed. When the liability discounted is a bond or debenture, the discount is often recognized as a deferred charge, similar to issue discount on bonds or debentures sold for cash. For example, General Host Corporation and Loew's Theatres, Inc. reported the discount recognized on their debentures exchanged for Armour and Company stock and Lorillard Corporation stock, respectively, in this manner. However, when the liability discounted is a purchase contract, the discount has been reported either as a deferred charge or as an offset to the liability. For example, Cinerama, Inc. reported the unamortized deferred interest expense on a purchase obligation in other assets; Faberge, Incorporated, on the other hand, stated the purchase contract liability arising in connection with an acquisition at its present value. The proposed Opinion requires that the discount be treated as an offset to the liability in all cases.

REBUTTAL OF CRITICISM

Let us reconsider the criticisms set forth earlier in light of the above discussion. The proposed Opinion does not require present value accounting, as some have charged. Under such accounting, all assets and liabilities would be revalued at the end of each year at their present values based on then current interest rates. The proposed Opinion merely requires the use of present value at the time of the transaction as a means of more clearly determining cost, in instances when true economic cost may not be stated explicitly in the transaction. Subsequent fluctuations in interest rates are ignored.

The proposed Opinion does not attempt to equalize interest rates between

---

[8] The Accounting Review, *June 1936, pages 188-89.*

companies. On the contrary, it takes cognizance of the fact that interest rates will vary considerably among borrowers, due to differences in their credit standing, in the provisions of the debt instruments themselves, and in the collateral. This makes it impossible to set a single interest rate that would fit all borrowers or all transactions.

Disclosure alone is not adequate to cure the distortions that may occur if interest is not imputed. As illustrated above, the amounts of imputed interest involved in relatively commonplace transactions may be very material indeed.

The materiality of imputed interest is dependent on three factors – size of the note, term and payment provisions of the note, and the difference between the stated and market rates of interest. Therefore, it is not possible to state a minimum interest rate above which additional interest need not be imputed, or a range of rates within which additional interest need not be imputed, since such limits only recognize one of the factors, the interest rate.

Criticism that the requirements of the proposed Opinion will increase the time and effort involved in accounting for notes may have some merit. However, with proper decision tools and planning, the additional time can be minimized and the additional effort concentrated on those notes which result in imputed interest of significant amount. ●